Oregon Affordable Housing Tax Credit

June 2, 2017

1. **What is the public policy purpose of this credit? Is there an expected timeline for achieving this goal?**
   The Oregon Affordable Housing Tax Credit, or OAHTC, is designed to help Oregonians with low incomes find safe and decent housing they can afford. Since 1989, the OAHTC has helped achieve this goal by directly lowering the rents as a result of the credit. The credit provides a long-term benefit, and keeps rents lowered for tenants for twenty-years. The credit lowers rent as soon as the project is completed, meaning tenants benefit as soon as they move in. The credit also helps preserve and facilitate the development of additional affordable homes for Oregonians.

   Lower rent for tenants means that households are paying less of their income towards housing, leaving more money for basics like food, medicine, utilities, and transportation.

   Today, in Oregon, one in four renters pay more than 50% of their income towards rent, leaving very little left over for basics like food, medicine, and transportation costs. The State of Oregon needs many tens of thousands of new units of affordable housing to meet the needs of our residents.

2. **Who (groups of individuals, types of organizations or businesses) directly benefits from this credit? Does this credit target a specific group? If so, is it effectively reaching this group?**
   The OAHTC targets and directly benefits Oregon households earning less than 80% of the area median income. Over 17,000 units have been built since 1989 with the OAHTC, and 41% of those were built in rural communities (defined for this purpose as a population of less than 50,000). Attached is a map of projects built with OAHTC across Oregon. For a family of four in Marion County, that is equal to $45,200. Most households who benefit from the lower rents provided through the OAHTC actually earn less – 60% of the area median income and below. The credit very effectively reaches people who need an affordable place to call home.

3. **What is expected to happen if this credit fully sunsets? Could adequate results be achieved with a scaled down version of the credit? What would be the effect of reducing the credit by 50%?**
   If the OAHTC is allowed to sunset by the Legislature, Oregon will lose an important and effective tool to both create and preserve affordable homes. Without the OAHTC, new

affordable housing projects would need either additional subsidies, or tenants would face higher rents.

Scaling back the credit will not achieve adequate results. The current limit for the credit is inadequate to respond to our housing crisis, and meet the need for more affordable rental homes across Oregon, and as a result, the Housing Alliance is proposing to increase the current cap from $17 million per year to $25 million per year. Any reduction in the credit would exacerbate Oregon's current statewide housing crisis.

If the cap were reduced, no new projects would be funded with the OAHTC for a period of time. A 50% reduction would result in a full elimination of new awards for an extended period of time, and then would result in only small allocations going forward.

4. **What background information on the effectiveness of this type of credit is available from other states?**
   This credit is unique to Oregon. Other states are able to achieve similar outcomes for residents with low incomes by using different resources, although some of those resources are less efficient because they involve a tax credit that is discounted and sold to an investor.

   It is important to note that in addition to a monetary resource, this credit also provides a mechanism and incentive for Oregon lending institutions to participate in financing affordable housing. This is particularly important for rural communities.

5. **Is use of a tax credit an effective and efficient way to achieve this policy goal? What are the administrative and compliance costs associated with this credit? Would a direct appropriation achieve the goal of this credit more efficiently?**
   This credit is remarkably efficient. It is not discounted and sold. 100% of the benefit flows directly to households with low incomes in the form of lower rents. There is no profit taken through this credit by developers or investors. Because the credit is an annual offset to taxes in exchange for reductions in interest income, there is no discount taken by the lenders.

   Administrative costs are also nominal for the program, lenders, and the developers. The simplicity of the program and the fact that it overlays other resources makes it straightforward to administer.

   Direct appropriation would be equally effective, but not more so. Appropriations would require large capital infusions by the public sector for each housing development. Because this credit is claimed incrementally over 20 years, the annual cost for one project is relatively small.

6. **What other incentives (including state or local subsides, federal tax expenditures or subsidies) are available that attempt to achieve a similar policy goal?**

There are many state and federal programs and public subsidies that result in lower rents. The OAHTC layers on top of those other subsidies to further lower rents and spread those other resources farther. The bottom line is there are not enough of any of the resources to meet the overwhelming demand for affordable housing.

7. **Could this credit be modified to make it more effective and/or efficient? If so, how?**
   This credit is remarkably efficient mechanism to directly reduce rents for tenants, especially compared to other forms of tax credits. Forty-one percent of the homes built are in rural communities, and since it was created in 1989, the credit has built apartment homes in 34 out of 36 counties across Oregon. One hundred percent of the credit benefits low income Oregonians have safe, stable homes, which is the policy objective.